

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF BESSEMER</b>	County <b>GOGEBIC</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>2/13/06</b>	Date Accountant Report Submitted to State: <b>2/23/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>DAVID TRACZYK CPA</b>			
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		ZIP <b>54534</b>	
Accountant Signature <i>David Traczyk, CPA</i>			Date <b>2/23/06</b>

CITY OF BESSEMER, MICHIGAN  
AUDITED FINANCIAL STATEMENTS  
June 30, 2005

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# DAVID TRACZYK

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## INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the Council  
City of Bessemer, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bessemer Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bessemer, Michigan management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bessemer, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City of Bessemer, Michigan, has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming an opinion on the financial statements of the City of Bessemer, Michigan, taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the City of Bessemer, Michigan. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 13, 2006, on my consideration of City of Bessemer, Michigan internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

February 13, 2006

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF NET ASSETS  
June 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 183,106	\$ 109,949	\$ 293,055
Accounts receivable	24,821	127,664	152,485
Taxes receivable	8,522	-	8,522
Due from State of Michigan	116,510	-	116,510
Internal balances	1,063	(1,063)	-
Deferred charges	17,565	-	17,565
Inventory	15,013	61,396	76,409
Restricted cash and investments	286,135	329,426	615,561
Capital assets	3,062,374	3,047,840	6,110,214
Accumulated depreciation	(1,505,334)	(1,062,053)	(2,567,387)
Total Assets	2,209,775	2,613,159	4,822,934
<b>LIABILITIES</b>			
Vouchers payable	90,200	38,971	129,171
Accrued interest	2,979	-	2,979
Due to other governments	-	18,304	18,304
Customer deposits	1,580	56,572	58,152
Bonds and notes payable	399,226	-	399,226
Accrued compensated absences	56,155	-	56,155
Total Liabilities	550,140	113,847	663,987
<b>NET ASSETS</b>			
Investments in capital assets, net of related debt	1,551,947	1,985,787	3,537,734
Reserved for perpetual care	234,019	-	234,019
Reserved for subsequent years	32,081	-	32,081
Reserved for capital projects	20,035	329,426	349,461
Unreserved	(178,447)	184,099	5,652
Total Net Assets	<u>\$ 1,659,635</u>	<u>\$ 2,499,312</u>	<u>\$ 4,158,947</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 389,872	\$ 45,250	\$ 273,558	\$ -	\$ (71,064)
Public safety	170,948	-	-	-	(170,948)
Highways and streets	620,566	-	263,255	-	(357,311)
Sanitation	121,361	140,205	-	-	18,844
Culture and recreation	67,989	5,890	1,491	-	(60,608)
Interest on long term debt	16,414	-	-	-	(16,414)
Total Governmental Activities	1,387,150	191,345	538,304	-	(657,501)
Business-type Activities:					
Water	395,945	390,228	-	-	(5,717)
Sewer	377,939	328,157	-	-	(49,782)
Total Business-type Activities	773,884	718,385	-	-	(55,499)
Total	\$ 2,161,034	\$ 909,730	\$ 538,304	\$ -	\$ (713,000)

Changes in Net Assets

	Governmental Activities	Business- type Activities	Total
Net (Expense) Revenue	\$ (657,501)	\$ (55,499)	\$ (713,000)
General Revenues:			
Property taxes	441,797	-	441,797
Investment income	14,397	11,718	26,115
Miscellaneous	52,655	-	52,655
Transfers	28,557	(28,557)	-
Total General Revenues and Transfers	537,406	(16,839)	520,567
Changes in Net Assets	(120,095)	(72,338)	(192,433)
Net Assets at Beginning of Year	1,779,730	2,571,650	4,351,380
Net Assets at End of Year	\$ 1,659,635	\$ 2,499,312	\$ 4,158,947

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 17,477	\$ 108,935	\$ -	\$ 56,694	\$ 183,106
Accounts receivable	24,821	-	-	-	24,821
Taxes receivable	8,522	-	-	-	8,522
Due from State of Michigan	86,315	24,955	5,240	-	116,510
Due from other funds	125,618	801	-	-	126,419
Deferred charges	17,565	-	-	-	17,565
Inventory	-	7,506	7,507	-	15,013
Restricted cash and investments	286,135	-	-	-	286,135
<b>Total Assets</b>	<b>\$ 566,453</b>	<b>\$ 142,197</b>	<b>\$ 12,747</b>	<b>\$ 56,694</b>	<b>\$ 778,091</b>
<b>LIABILITIES</b>					
Vouchers payable	\$ 70,836	\$ 3,741	\$ 15,623	\$ -	\$ 90,200
Due to other funds	19,624	87,622	18,110	-	125,356
Customer deposits	1,580	-	-	-	1,580
<b>Total Liabilities</b>	<b>92,040</b>	<b>91,363</b>	<b>33,733</b>	<b>-</b>	<b>217,136</b>
<b>FUND BALANCES</b>					
Reserved for perpetual care	234,019	-	-	-	234,019
Reserved for subsequent years	32,081	-	-	-	32,081
Reserved for capital outlay	20,035	-	-	-	20,035
Unreserved	188,278	50,834	(20,986)	56,694	274,820
<b>Total Fund Balances</b>	<b>474,413</b>	<b>50,834</b>	<b>(20,986)</b>	<b>56,694</b>	<b>560,955</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 566,453</b>	<b>\$ 142,197</b>	<b>\$ 12,747</b>	<b>\$ 56,694</b>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,505,334. 1,557,040

Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Due within one year	\$ 76,685	
Due in more than one year	322,541	
Compensated absences	56,155	(455,381)

Interest payable on long-term debt does not require current financial resources.

Therefore interest payable is not reported as a liability in governmental funds balance sheet. (2,979)

\$ 1,659,635

See accompanying notes to basic financial statements.



CITY OF BESSEMER, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
Year ended June 30, 2005

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
Revenues:					
Local Sources:					
Property taxes	\$ 396,772	\$ -	\$ -	\$ 45,025	\$ 441,797
Licenses and permits	3,829	-	-	-	3,829
Charges for services	569,494	-	-	-	569,494
Fines and forfeits	24,400	-	-	-	24,400
Interest	10,713	712	236	2,736	14,397
Other	18,255	-	-	10,000	28,255
State sources	275,049	193,686	69,569	-	538,304
	1,298,512	194,398	69,805	57,761	1,620,476
Expenditures:					
General Government	623,217	-	-	9,419	632,636
Public safety	170,948	-	-	-	170,948
Highways & streets	229,300	185,021	206,245	-	620,566
Sanitation	121,361	-	-	-	121,361
Culture and recreation	67,989	-	-	-	67,989
Capital outlay	17,100	-	-	152,618	169,718
Debt service:					
Principal	74,677	-	-	-	74,677
Interest	16,990	-	-	-	16,990
	1,321,582	185,021	206,245	162,037	1,874,885
Excess of Revenues over (under) Expenditures	(23,070)	9,377	(136,440)	(104,276)	(254,409)
Other Financing Sources (Uses):					
Transfers in	28,557	-	75,000	-	103,557
Transfers (out)	(45,000)	(30,000)	-	-	(75,000)
Proceeds from borrowing	7,640	-	-	-	7,640
	(8,803)	(30,000)	75,000	-	36,197
Net Change in Fund Balances	(31,873)	(20,623)	(61,440)	(104,276)	(218,212)
Fund balance at beginning of year	506,286	71,457	40,454	160,970	779,167
Fund balance at end of year	\$ 474,413	\$ 50,834	\$ (20,986)	\$ 56,694	\$ 560,955

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
Year ended June 30, 2005

Continued

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	\$	(218,212)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	169,718		
Depreciation expense	<u>(139,404)</u>		30,314

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from borrowing	(7,640)		
Principal paid on long-term debt	<u>74,677</u>		67,037

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued interest	576		
Accrued compensated absences	<u>190</u>		<u>766</u>

Change in Net Assets of Governmental Activities	\$	<u><u>(120,095)</u></u>
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See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
Year ended June 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Local Sources:				
Property taxes	\$ 403,700	\$ 403,700	\$ 396,772	\$ (6,928)
Licenses and permits	6,100	6,100	3,829	(2,271)
Charges for services	507,710	507,710	569,494	61,784
Fines and forfeits	21,000	21,000	24,400	3,400
Interest	17,500	17,500	10,713	(6,787)
Other	5,085	5,085	18,255	13,170
State sources	<u>304,800</u>	<u>304,800</u>	<u>275,049</u>	<u>(29,751)</u>
	1,265,895	1,265,895	1,298,512	32,617
Expenditures:				
General Government	599,760	599,760	623,217	(23,457)
Public safety	185,060	185,060	170,948	14,112
Highways & streets	207,050	207,050	229,300	(22,250)
Sanitation	120,800	120,800	121,361	(561)
Culture and recreation	73,600	73,600	67,989	5,611
Capital outlay	5,000	5,000	17,100	(12,100)
Debt service:				
Principal	47,130	47,130	74,677	(27,547)
Interest	<u>12,330</u>	<u>12,330</u>	<u>16,990</u>	<u>(4,660)</u>
	<u>1,250,730</u>	<u>1,250,730</u>	<u>1,321,582</u>	<u>(70,852)</u>
Excess of Revenues over (under) Expenditures	15,165	15,165	(23,070)	(38,235)
Other Financing Sources (Uses):				
Operating transfers in	-	-	28,557	28,557
Operating transfers (out)	(90,750)	(90,750)	(45,000)	45,750
Proceeds from borrowing	<u>-</u>	<u>-</u>	<u>7,640</u>	<u>7,640</u>
	<u>(90,750)</u>	<u>(90,750)</u>	<u>(8,803)</u>	<u>81,947</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other (Uses)	(75,585)	(75,585)	(31,873)	43,712
Fund balance at beginning of year	<u>506,286</u>	<u>506,286</u>	<u>506,286</u>	-
Fund balance at end of year	<u>\$ 430,701</u>	<u>\$ 430,701</u>	<u>\$ 474,413</u>	<u>\$ 43,712</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2005

	Business type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and investments	\$ 94,634	\$ 15,315	\$ 109,949
Accounts receivable	65,511	62,153	127,664
Due from other funds	29,911	-	29,911
Inventory	51,598	9,798	61,396
Total Current Assets	241,654	87,266	328,920
<b>RESTRICTED ASSETS:</b>			
Cash and investments	258,790	70,636	329,426
Total Restricted Assets	258,790	70,636	329,426
<b>NONCURRENT ASSETS:</b>			
Property, plant, and equipment	2,113,627	934,213	3,047,840
Accumulated depreciation	(729,921)	(332,132)	(1,062,053)
Total Noncurrent Assets	1,383,706	602,081	1,985,787
Total Assets	1,884,150	759,983	2,644,133
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Vouchers payable	12,821	26,150	38,971
Due to other funds	-	30,974	30,974
Due to other governments	-	18,304	18,304
Total Current Liabilities	12,821	75,428	88,249
<b>NONCURRENT LIABILITIES:</b>			
Customer deposits	56,572	-	56,572
Total Noncurrent Liabilities	56,572	-	56,572
Total Liabilities	69,393	75,428	144,821
<b>NET ASSETS</b>			
Investments in capital assets, net of related debt	1,383,706	602,081	1,985,787
Reserved for capital projects	258,790	70,636	329,426
Unreserved	172,261	11,838	184,099
Total Net Assets	\$ 1,814,757	\$ 684,555	\$ 2,499,312

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
Year ended June 30, 2005

	Business type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 387,957	\$ 328,107	\$ 716,064
Miscellaneous	2,271	50	2,321
Total Operating Revenue	390,228	328,157	718,385
Operating Expenses:			
Council/administration	11,137	617	11,754
General administration	55,945	10,081	66,026
Office	33,297	17,001	50,298
Production and pumping	10,316	42,225	52,541
Treatment plant	64,155	287,663	351,818
Water purchased	158,281	-	158,281
Customer accounting	4,363	3,267	7,630
Distribution	20,304	-	20,304
Depreciation	38,147	17,085	55,232
Total Operating Expenses	395,945	377,939	773,884
Operating Income (Loss)	(5,717)	(49,782)	(55,499)
Non-operating revenue (expenses):			
Interest income	6,452	5,266	11,718
Total non-operating revenues (expenses)	6,452	5,266	11,718
Net Income Before Contributions and Transfers	735	(44,516)	(43,781)
Capital contributions	-	-	-
Operating transfers:			
Transfers in	-	-	-
Transfers (out)	-	(28,557)	(28,557)
Net transfers	-	(28,557)	(28,557)
Change in Net Assets	735	(73,073)	(72,338)
Net Assets at Beginning of Year	1,814,022	757,628	2,571,650
Net Assets at End of Year	\$ 1,814,757	\$ 684,555	\$ 2,499,312

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year ended June 30, 2005

	Business type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 394,585	\$ 327,718	\$ 722,303
Payments to suppliers	(310,901)	(312,424)	(623,325)
Payments to employees	(37,049)	(15,960)	(53,009)
Internal activity - payment from (to) other funds	377	(1,325)	(948)
Net Cash Provided (Used) by Operating Activities	47,012	(1,991)	45,021
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	-	(28,557)	(28,557)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(101,648)	(182,308)	(283,956)
Net Cash Provided (Used) by Capital and Related Financing Activities	(101,648)	(182,308)	(283,956)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(258,790)	(70,636)	(329,426)
Proceeds from sale of investments	-	-	-
Interest income	6,452	5,266	11,718
Net Cash Provided (Used) by Investing Activities	(252,338)	(65,370)	(317,708)
Net Increase (Decrease) in Cash and Cash Equivalents	(306,974)	(278,226)	(585,200)
Balances - Beginning of Year	401,608	293,541	695,149
Balances - End of Year	\$ 94,634	\$ 15,315	\$ 109,949
Cash, including time deposits	\$ 94,634	\$ 15,315	\$ 109,949
Restricted cash, including time deposits	-	-	-
Total Cash and Cash Equivalents, End of Year	\$ 94,634	\$ 15,315	\$ 109,949

See accompanying notes to basic financial statements.

Continued

RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$	(5,717)	\$	(49,782)	\$	(55,499)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation		38,147		17,085		55,232
Change in assets and liabilities:						
Receivables		1,020		(439)		581
Due from other funds		377		-		377
Inventory		3,195		(1,461)		1,734
Vouchers payable		7,954		25,985		33,939
Due to other funds		-		(1,323)		(1,323)
Due to other governments		(1,301)		7,944		6,643
Meter deposits		3,337		-		3,337
Net Cash Provided by Operating Activities	\$	47,012	\$	(1,991)	\$	45,021
Noncash investing, capital and financing activities:						
None						

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND - POLICE AND FIREMEN RETIREMENT FUND  
June 30, 2005

	ASSETS	
Cash and investments		<u>\$357,134</u>
	Total Assets	<u>357,134</u>
	LIABILITIES	<u>-</u>
	NET ASSETS	
Held in trust for pension benefits		<u><u>\$357,134</u></u>

See accompanying notes to basic financial statements.



CITY OF BESSEMER, MICHIGAN  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND - POLICE AND FIREMEN RETIREMENT FUND  
Year ended June 30, 2005

	ADDITIONS	
Investment earnings:		
Interest		\$8,537
	DEDUCTIONS	
Benefits		21,289
Administration		<u>11</u>
	Total Deductions	<u>21,300</u>
Change in Net Assets		(12,763)
Net Assets at Beginning of Year		<u>369,897</u>
Net Assets at End of Year		<u><u>\$357,134</u></u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL STATEMENT

The City of Bessemer, Michigan (the "City") operates under a Council – Manager form of government as authorized by its charter.

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on this criteria, the City has no component units.

BASIS OF PRESENTATION

*Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes. Intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is place on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

## NOTES TO FINANCIAL STATEMENTS (continued)

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

### **Governmental Funds**

#### *General Fund*

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

#### *Special Revenue Funds*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

### **Proprietary Funds**

#### *Enterprise Funds*

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

### **Fiduciary Funds (Not included in government-wide statements)**

The City's Policemen and Fireman Retirement Fund is a pension trust fund used to account for the accumulation of resources to be used for the retirement benefit payments to retired policemen and firemen of the City.

## NOTES TO FINANCIAL STATEMENTS (continued)

### Major and Nonmajor Funds

The governmental and enterprise funds of the City are further classified as major and nonmajor funds as follows:

Fund	Brief Description
<b>MAJOR FUNDS</b>	
1. General Special Revenue:	See above for description.
2. Major Street	Account for revenues and expenditures of major street system.
3. Local Street	Account for revenues and expenditures of local street system.
Enterprise:	
4. Water	Account for revenues and expenses of providing water service to the public.
5. Sewer	Account for revenues and expenses of providing sewer service to the public.
<b>NONMAJOR FUNDS</b>	
Special Revenue:	
6. Building Authority Fund	Account for revenues and expenditures of Building Authority.
7. Downtown Development Authority Fund	Account for revenues and expenditures of Downtown Development Authority.

### Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

## NOTES TO FINANCIAL STATEMENTS (continued)

### **Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

### **ASSETS, LIABILITIES, AND EQUITY**

#### **Cash and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

#### **Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note F for details of interfund transactions, including receivables and payables at year-end.

## NOTES TO FINANCIAL STATEMENTS (continued)

### **Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax and grants and other similar intergovernmental revenues since they are usually both measurable and available. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

### **Inventories**

The inventories of the City's major and local street funds and enterprise funds consist of supplies and are recorded at the lower of cost or estimated value.

### **Fixed Assets**

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

#### *Government-wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

-Buildings	50 years
-Machinery and Equipment	5-15 years
-Utility System	10-100 years
-Infrastructure	25-50 years

#### *Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

## NOTES TO FINANCIAL STATEMENTS (continued)

### **Restricted Assets**

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets are related to cash accounts established to be used for capital projects, cemetery perpetual care, and subsequent years operations.

### **Long-term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations of proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes and bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

### **Compensated Absences**

The City's policies regarding vacation time and sick leave permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term in the government-wide statements. In the fund financial statements, the liability is reported as it is incurred.

### **Equity Classifications**

#### *Government-wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

#### *Fund Statement*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note E for additional disclosures.

## NOTES TO FINANCIAL STATEMENTS (continued)

### REVENUES, EXPENDITURES, AND EXPENSES

#### Property Tax

Property tax revenue should be recognized in accordance with MCGAA Statement 3. Properties are assessed and lienied as of December 31 and their related property taxes are billed on December 1 or July 1 of the following year. These taxes are due on February 14, or August 31 with the final collection date of February 28 before they are added to the county delinquent tax rolls.

#### Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods, and /or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

#### Expenditures/Expenses

In government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds--By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund--By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

#### Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

### BUDETARY CONTROL

The City follows the following procedures in establishing budgets as reflected in the financial statements:

1. Prior to June 1<sup>st</sup>, the City Manager submits a proposed budget to the Council with covers all funds operated by the City commencing the following July 1<sup>st</sup>, the proposed expenditures and the means of financing them.
2. At least one public hearing is conducted by the City to obtain taxpayer comments and review the proposed budget in detail.
3. In June, the budget is legally enacted through passage of an ordinance.
4. Any revisions that alter any item of the budget are approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on a basis consistent with Generally Accepted Accounting Principles.

Presented budgeted amounts presented are as originally adopted on June 7, 2004, or as amended by action of the Council.



## NOTES TO FINANCIAL STATEMENTS (continued)

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### NOTE B - BALANCE SHEET--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Local Unit Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Local Unit's deposits are in accordance with statutory authority.

At June 30, 2005, cash and investment were reported in the basic financial statements as follows:

	Governmental Activities	Business-Type Activities	Fiduciary Fund	Total
Cash and investments	\$ 183,106	\$ 109,949	\$ 357,134	\$ 650,189
Restricted cash and investments	286,135	329,426	-	615,561
	<u>\$ 469,241</u>	<u>\$ 439,375</u>	<u>\$ 357,134</u>	<u>\$ 1,265,750</u>

The breakdown between deposits and investments for the City is as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit):	
Insured	\$ 392,278
In excess of insurance limits	434,090
Invested in bank investment pools	445,832
Petty cash or cash on hand	415
	<hr/>
Subtotal	1,272,615
Less outstanding items	(6,865)
	<hr/>
	<u>\$ 1,265,750</u>

The bank balance of the City's deposits is \$826,368 of which \$392,278 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The investments in bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. These are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

# NOTES TO FINANCIAL STATEMENTS (continued)

## NOTE C – ACCOUNTS RECEIVABLE

The City records the receivables net of the allowance for uncollectibles. The amounts reflected as of June 30, 2004, include the following amounts with allowances for uncollectibles:

<u>Fund</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
General	\$ 24,821	\$ -	\$ 24,821
General - taxes	8,522	-	8,522
Water	65,511	-	65,511
Sewer	62,163	-	62,163

The allowance is established, as accounts are deemed uncollectible. Delinquent personal property taxes are deemed uncollectible after 3 years and are written off.

## NOTE D - RESTRICTED CASH

Various accounts have been established by the City for funds that have been reserved for future reserved expenditures. Separate accounts have been set up as follows:

General Fund:	
Subsequent years costs for road repairs, fire department, library, and sick leave	\$ 32,081
Cemetery perpetual care	234,019
Capital outlay	<u>20,035</u>
	286,135
Water Fund:	
Capital improvements	258,790
Sewer Fund:	
Capital improvements	<u>70,636</u>
Total restricted assets	<u>\$ 615,561</u>

The above amounts have been set up in local banks in checking, savings, certificate of deposit accounts, and bank investment pools.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE E – PROPERTY, PLANT, AND EQUIPMENT

A summary of the changes in the City's property, plant, and equipment for the year is as follows:

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
<u>General Fixed Assets</u>				
Land	\$ 5,999	\$ -	\$ -	\$ 5,999
Buildings	1,248,498	152,617	-	1,401,115
Machinery and equipment	1,433,928	7,640	-	1,441,568
Office equipment	127,471	9,460	-	136,931
Infrastructure	<u>76,761</u>	<u>-</u>	<u>-</u>	<u>76,761</u>
	2,892,657	169,717	-	3,062,374
Accumulated depreciation	<u>1,365,930</u>	<u>139,404</u>	<u>-</u>	<u>1,505,334</u>
	<u>\$ 1,526,727</u>	<u>\$ 30,313</u>	<u>\$ -</u>	<u>\$ 1,557,040</u>
<u>Water Fund</u>				
Land	\$ 17,723	\$ -	\$ -	\$ 17,723
Land improvements	23,760	-	-	23,760
Well improvements	142,105	-	-	142,105
Buildings	280,121	-	-	280,121
Machinery and equipment	218,511	-	-	218,511
Vehicles	24,632	-	-	24,632
Office equipment	5,431	-	-	5,431
Distribution system	<u>1,299,697</u>	<u>101,647</u>	<u>-</u>	<u>1,401,344</u>
	2,011,980	101,647	-	2,113,627
Accumulated depreciation	<u>691,774</u>	<u>38,147</u>	<u>-</u>	<u>729,921</u>
Net Plant	<u>\$ 1,320,206</u>	<u>\$ 63,500</u>	<u>\$ -</u>	<u>\$ 1,383,706</u>
<u>Sewer Fund</u>				
Machinery and equipment	\$ 161,085	\$ -	\$ -	\$ 161,085
Vehicles	24,633	-	-	24,633
Office equipment	4,846	-	-	4,846
Transmission system	<u>561,341</u>	<u>182,308</u>	<u>-</u>	<u>743,649</u>
	751,905	182,308	-	934,213
Accumulated depreciation	<u>315,047</u>	<u>17,085</u>	<u>-</u>	<u>332,132</u>
Net Plant	<u>\$ 436,858</u>	<u>\$ 165,223</u>	<u>\$ -</u>	<u>\$ 602,081</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE F - INTERFUND ACTIVITIES

The amounts of interfund receivables and payables at June 30, 2005, were as follows:

<u>Receivable</u>	<u>June 30, 2005</u>	<u>Payable</u>	<u>June 30, 2005</u>
General	\$ 125,618	Sewer	\$ 20,687
		Major Street	87,622
		Local Street	<u>17,309</u>
			125,618
Water	<u>29,911</u>	General	19,624
		Sewer	<u>10,287</u>
			<u>29,911</u>
	<u>\$ 155,529</u>		<u>\$ 155,529</u>

Operating transfers between the various funds of the City for the year ended June 30, 2005, were as follows:

<u>Transfer From</u>		<u>Transfer To</u>	
Local Street	\$ 75,000	General	\$ 45,000
		Major Street	<u>30,000</u>
			75,000
General	<u>28,557</u>	Sewer	<u>28,557</u>
	<u>\$ 103,557</u>		<u>\$ 103,557</u>

The fund financial statements include charges by the general fund to the various funds and functions of the City for administration and rentals as follows:

Administration	\$ 186,116
Rentals	<u>195,862</u>
Total	<u>\$ 381,978</u>

These charges represent the allocation of various overhead expenditures. They have been eliminated in the government-wide statement of activities in accordance with GASB 34.

# NOTES TO FINANCIAL STATEMENTS (continued)

## NOTE G - JOINT VENTURES

The City is a member of the Bessemer Area Sewer Authority (BASA), a joint venture. It has been incorporated by the City of Bessemer and Bessemer Township, both located in Gogebic County, Michigan. The BASA operates under a board of directors consisting of three members, two appointed by the City, and one by Bessemer Township. As a joint venture, the BASA operates independent from the member municipalities and is not considered a component unit of the City. Separate financial statements of the BASA are available at the office of the BASA located at E7840 Stone Rd., Bessemer, Michigan. A condensed summary of the BASA activities as of June 30, 2005, is as follows:

	<u>June 30, 2004</u>	<u>Net Change</u>	<u>June 30, 2005</u>
Current assets	\$ 250,698	\$ 3,059	\$ 253,757
Property, plant and equipment	7,833,648	(126,802)	7,706,846
Other assets	<u>235,164</u>	<u>13,355</u>	<u>248,519</u>
	<u>\$ 8,319,510</u>	<u>\$ (110,388)</u>	<u>\$ 8,209,122</u>
Current liabilities	\$ 77,335	\$ 8,348	\$ 85,683
Long-term debt	2,454,000	(51,000)	2,403,000
Equity	<u>5,788,175</u>	<u>(67,736)</u>	<u>5,720,439</u>
	<u>\$ 8,319,510</u>	<u>\$ (110,388)</u>	<u>\$ 8,209,122</u>

The City also is a member of the Gogebic Range Water Authority (GRWA), a joint venture. It has been incorporated by the Charter Township of Ironwood, Cities of Bessemer and Bessemer, along with the Townships of Bessemer and Bessemer, all of Gogebic County. The GRWA operates under a board of directors consisting of eleven members, two appointed by the each of the constituent municipalities, and 1 at large member appointed by the board of directors. The GRWA operates independent from the member municipalities and is not considered a component unit of the City. Separate financial statements of the GRWA are available through their representative at P.O. Box 445, Ramsay, Michigan 49959. A condensed summary of the GRWA activities as of June 30, 2005, is as follows:

	<u>June 30, 2004</u>	<u>Net Change</u>	<u>June 30, 2005</u>
Current assets	\$ 163,267	\$ 57,199	\$ 220,466
Property, plant and equipment	11,175,968	1,648,372	12,824,340
Other assets	<u>448,340</u>	<u>(206,632)</u>	<u>241,708</u>
	<u>\$ 11,787,575</u>	<u>\$ 1,498,939</u>	<u>\$ 13,286,514</u>
Current liabilities	\$ 516,051	\$ (229,744)	\$ 286,307
Long-term debt	4,214,627	670,992	4,885,619
Equity	<u>7,056,897</u>	<u>1,057,691</u>	<u>8,114,588</u>
	<u>\$ 11,787,575</u>	<u>\$ 1,498,939</u>	<u>\$ 13,286,514</u>

# NOTES TO FINANCIAL STATEMENTS (continued)

## NOTE H - LONG-TERM DEBT

A summary of changes in the City's long-term debt for the year ended June 30, 2005, is as follows:

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>
Bonds payable	\$ 141,000	\$ -	\$ 2,000	\$ 139,000
Notes payable	325,263	7,640	72,677	260,226
Lease purchase	-	-	-	-
Compensated absences	<u>56,345</u>	<u>-</u>	<u>190</u>	<u>56,155</u>
	<u>\$ 522,608</u>	<u>\$ 7,640</u>	<u>\$ 74,867</u>	<u>\$ 455,381</u>

The long-term debt consists of the following general obligations of the City:

1. General Obligation Limited Tax Bonds

Issued April 17, 2002 for \$145,000, bearing interest @ 4.75% payable over 30 years. 139,000

2. Bank Note (National City Bank)

Issued November 10, 1998, bearing interest @ 5.01%, payable over the next 4 years 42,633

3. Bank Note (Wells Fargo Bank)

Issued September 23, 2003, for \$150,000, bearing interest @ 2.0% payable over 6 years 106,250

4. Bank Note (Wells Fargo Bank)

Issued September 23, 2003, for \$150,000, bearing interest @ 2.0% payable over 6 years 106,250

5. Equipment Loan (Kubota Credit)

Issued July 22, 2004, for \$7,640, no interest, payable over 3 years. 5,093

Total General Obligation Debt \$ 399,226

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE H - LONG-TERM DEBT (continued)

The repayment schedule for these debts is scheduled as follows:

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2006	\$ 76,698	\$ 12,249	\$ 88,947
6/30/2007	77,028	10,379	87,407
6/30/2008	53,000	8,139	61,139
6/30/2009	53,000	6,979	59,979
6/30/2010	15,500	6,074	21,574
6/30/11 - 6/30/15	18,000	27,883	45,883
6/30/16 - 6/30/20	22,000	23,228	45,228
6/30/21 - 6/30/25	29,000	17,290	46,290
6/30/26 - 6/30/30	37,000	9,690	46,690
6/30/31 - 6/30/32	18,000	1,282	19,282
	<u>\$ 399,226</u>	<u>\$ 123,193</u>	<u>\$ 522,419</u>

Summary of changes in long-term debt:

#### Compensated Absences

Employees earn one day of sick leave per month with a maximum accumulation of 120 days. Upon retirement, employees are entitled to payment for up to a maximum of 100 days, calculated with regard to the number of years of service. Employees are also granted vacation in varying amounts based on the number of years of service. The estimated value of unused sick leave and vacation are reflected as a liability in the general long term debt account group at \$32,404 and \$23,751 respectively.

### NOTE I - CONTINGENT LIABILITY

As further explained in Note G, the City is a member of two joint ventures. As a member, the City is contingently liable for its share of the bonds issued by the joint ventures. As of June 30, 2005, the outstanding bonds of the joint ventures are as follows:

	<u>Outstanding</u>	<u>City Portion</u>
BASA - 1987 bond issue	\$ 1,310,000	\$ 1,129,875 (86.25%)
BASA - 1998 bond issue	1,144,000	1,109,680 (97.00%)
GRWA - 1999 bond issue	2,688,000	2,128,896 (79.20%)
GRWA - 2003 bond issue	1,306,000	382,919 (29.32%)

### NOTE J - EMPLOYEE RETIREMENT PLAN

The City is a participating member of the Michigan Municipal Employees Retirement System (MERS) which covers substantially all of the City employees. The plan requires employees' contributions equal to specified percentages of earnings and the City makes annual contributions to the plan equal to the amounts accrued for pension expense. Detailed information concerning the plan was not available, accordingly, various disclosures, required by GASB Statement No.25, are not included herein.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE K - POLICEMEN AND FIREMEN RETIREMENT PLAN

This plan was established and is maintained under the Fire and/or Police Department Pension and Retirement Act, Act 345, P.A. 1937. This plan provides for all past full time policemen and firemen and benefits were vested after 10 years of service. At June 30, 2005, the plan had no unfunded accrued liabilities. The City had no expense related to the plan for the years ended June 30, 2005, and 2004. Since the City's police and fire departments have been terminated, there were no active members at June 30, 2005.

### NOTE L – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has obtained coverage from a commercial insurance company. The City has comprehensive general liability coverage and has obtained worker' compensation coverage.

All risk management activities are accounted for in the financial statements of the City. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2004, will not materially affect the financial condition of the City. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

### NOTE M – COMMITMENTS AND CONTINGENCIES

In normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of that is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

### NOTE P – COMPLIANCE ISSUES

#### Expenditures in Excess of Appropriations

The City had expenditures in excess of appropriations budgeted as follows:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund	\$ 1,321,582	\$ 1,250,730	\$ 70,852
Downtown Development Authority Fund	162,037	79,500	82,537
Local Street Fund	206,245	166,500	39,745

#### Deficit

The City ended the year with a deficit of \$20,986 in the Local Street fund. This deficit is anticipated to be eliminated by operating revenues in excess of expenditures during the next fiscal year.



## OTHER FINANCIAL INFORMATION

CITY OF BESSEMER, MICHIGAN  
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2005

		Special Revenue Funds		
		Building Authority Fund	Downtown Development Authority Fund	Totals
ASSETS				
Cash and investments		\$4,111	\$52,583	\$56,694
		<u>\$4,111</u>	<u>\$52,583</u>	<u>\$56,694</u>
LIABILITIES				
Vouchers payable	-	-	-	-
Due to other funds	-	-	-	-
	-	-	-	-
EQUITY				
Fund balance (deficit):				
Unreserved		4,111	52,583	56,694
		<u>4,111</u>	<u>52,583</u>	<u>56,694</u>
		<u>\$4,111</u>	<u>\$52,583</u>	<u>\$56,694</u>

CITY OF BESSEMER, MICHIGAN  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS  
 For the Fiscal Year ended June 30, 2005

	Special Revenue Funds		
	Building Authority Fund	Downtown Development Authority Fund	Totals
Revenues:			
Taxes	\$ -	\$ 45,025	\$ 45,025
Interest	142	2,594	2,736
Miscellaneous	-	10,000	10,000
	142	57,619	57,761
Expenditures:			
General government	-	9,419	9,419
Capital outlay	-	152,618	152,618
	-	162,037	162,037
Excess of Revenues over (under) expenditures	142	(104,418)	(104,276)
Other Financing Sources (Uses):			
Operating transfers in	-	-	-
Proceeds from borrowing	-	-	-
	-	-	-
Excess of Revenues and Other Sources over (under) expenditures and Other Uses	142	(104,418)	(104,276)
Fund balance - beginning of year (deficit)	3,969	157,001	160,970
Fund Balance - end of year (deficit)	\$4,111	\$52,583	\$56,694

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF REVENUE - BUDGET AND ACTUAL - GENERAL FUND  
Year ended June 30, 2005

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Taxes:				
Property taxes	\$390,000	\$390,000	\$381,793	(\$8,207)
Collection fees	13,700	13,700	14,979	1,279
	403,700	403,700	396,772	(6,928)
Licenses and permits	6,100	6,100	3,829	(2,271)
Intergovernmental revenues:				
State sources:				
Library grant	1,800	1,800	1,491	(309)
Revenue sharing	303,000	303,000	273,558	(29,442)
	304,800	304,800	275,049	(29,751)
Charges for services:				
Administration	182,500	182,500	186,116	3,616
Rentals	152,710	152,710	198,612	45,902
Sanitation	143,000	143,000	140,205	(2,795)
Cemetery	26,000	26,000	36,275	10,275
Library	3,500	3,500	5,890	2,390
Other	-	-	2,396	2,396
	507,710	507,710	569,494	61,784
Fines and forfeits	21,000	21,000	24,400	3,400
Other				
Interest	17,500	17,500	10,713	(6,787)
Sale of property	1,700	1,700	16,576	14,876
Miscellaneous	3,385	3,385	1,679	(1,706)
	22,585	22,585	28,968	6,383
<b>TOTAL REVENUES</b>	<b>\$1,265,895</b>	<b>\$1,265,895</b>	<b>\$1,298,512</b>	<b>\$32,617</b>

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND  
Year ended June 30, 2005

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
General government:				
Council/administration	\$7,890	\$7,890	\$7,233	\$657
Manager	54,950	54,950	49,577	5,373
General administration	354,450	354,450	403,948	(49,498)
Clerk	38,300	38,300	21,974	16,326
External audit	2,000	2,000	5,800	(3,800)
Board of review	2,550	2,550	2,553	(3)
Treasurer	46,020	46,020	37,823	8,197
Assessor	14,000	14,000	12,264	1,736
Elections	1,450	1,450	944	506
Buildings and grounds	25,400	25,400	27,751	(2,351)
Attorney	6,500	6,500	4,347	2,153
Cemetery	46,250	46,250	49,003	(2,753)
	599,760	599,760	623,217	(23,457)
Public safety:				
Police protection	144,250	144,250	141,834	2,416
Fire protection	30,810	30,810	23,944	6,866
Building inspector	10,000	10,000	5,170	4,830
	185,060	185,060	170,948	14,112
Highways and streets:				
Maintenance	165,350	165,350	186,484	(21,134)
Street lighting	41,700	41,700	42,816	(1,116)
	207,050	207,050	229,300	(22,250)
Sanitation - Collection/disposal	120,800	120,800	121,361	(561)
Culture and recreation:				
Planning	2,400	2,400	-	2,400
Parks and recreation	11,500	11,500	9,771	1,729
Library	59,700	59,700	58,218	1,482
	73,600	73,600	67,989	5,611
Capital outlay	5,000	5,000	17,100	(12,100)
Debt service:				
Principal	47,130	47,130	74,677	(27,547)
Interest	12,330	12,330	16,990	(4,660)
	59,460	59,460	91,667	(32,207)
<b>TOTAL EXPENDITURES</b>	<b>1,250,730</b>	<b>1,250,730</b>	<b>1,321,582</b>	<b>(\$70,852)</b>

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
BUILDING AUTHORITY FUND  
Year ended June 30, 2005

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Federal grant	\$ -	\$ -	\$ -	\$ -
Interest	-	-	142	142
	<u>-</u>	<u>-</u>	<u>142</u>	<u>142</u>
Expenditures:				
General government:				
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues over (under) Expenditures	<u>-</u>	<u>-</u>	<u>142</u>	<u>142</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	142	142
Fund balance at beginning of year	<u>3,969</u>	<u>3,969</u>	<u>3,969</u>	<u>-</u>
Fund balance at end of year (deficit)	<u><u>\$3,969</u></u>	<u><u>\$3,969</u></u>	<u><u>\$4,111</u></u>	<u><u>\$142</u></u>

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
DOWNTOWN DEVELOPMENT AUTHORITY FUND  
Year ended June 30, 2005

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 52,000	\$ 52,000	\$ 45,025	\$ (6,975)
Interest	2,500	2,500	2,594	94
Miscellaneous	<u>25,000</u>	<u>25,000</u>	<u>10,000</u>	<u>(15,000)</u>
	79,500	79,500	57,619	(21,881)
Expenditures:				
General government	30,010	30,010	9,419	20,591
Capital outlay	<u>49,490</u>	<u>49,490</u>	<u>152,618</u>	<u>(103,128)</u>
	<u>79,500</u>	<u>79,500</u>	<u>162,037</u>	<u>(82,537)</u>
Excess of Revenues over (under) Expenditures	-	-	(104,418)	(104,418)
Other Financing Sources (Uses):				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	(104,418)	(104,418)
Fund balance at beginning of year	<u>157,001</u>	<u>157,001</u>	<u>157,001</u>	<u>-</u>
Fund balance at end of year	<u><u>\$157,001</u></u>	<u><u>\$157,001</u></u>	<u><u>\$52,583</u></u>	<u><u>(\$104,418)</u></u>

CITY OF BESSEMER, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
MAJOR STREET FUND  
For the Fiscal Year ended June 30, 2005

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
State sources:				
Highway aids	\$192,600	\$192,600	\$174,201	(\$18,399)
State trunk line maintenance	17,000	17,000	19,485	2,485
Interest	2,500	2,500	712	(1,788)
	<u>\$212,100</u>	<u>212,100</u>	<u>194,398</u>	<u>(17,702)</u>
Expenditures:				
Highways and streets:				
Council /administration	35,950	35,950	4,235	31,715
General administration	-	-	34,985	(34,985)
Construction	23,900	23,900	12,049	11,851
Routine maintenance	68,200	68,200	39,365	28,835
Snow and ice	76,000	76,000	84,273	(8,273)
Trunkline maintenance	18,000	18,000	10,114	7,886
	<u>222,050</u>	<u>222,050</u>	<u>185,021</u>	<u>37,029</u>
Excess of Revenues over (under) Expenditures	(9,950)	(9,950)	9,377	19,327
Other Financing Sources (Uses):				
Operating transfers in	9,950	9,950	-	(9,950)
Operating transfers (out)	-	-	(30,000)	(30,000)
	<u>9,950</u>	<u>9,950</u>	<u>(30,000)</u>	<u>(39,950)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	(20,623)	(20,623)
Fund balance at beginning of year	<u>71,457</u>	<u>71,457</u>	<u>71,457</u>	<u>-</u>
Fund balance at end of year (deficit)	<u>\$71,457</u>	<u>\$71,457</u>	<u>\$50,834</u>	<u>(\$20,623)</u>



CITY OF BESSEMER, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
LOCAL STREET FUND  
Year ended June 30, 2005

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
State sources:				
Highway aids	\$85,300	\$85,300	\$69,569	(\$15,731)
Interest	<u>400</u>	<u>400</u>	<u>236</u>	<u>(164)</u>
	85,700	85,700	69,805	(15,895)
Expenditures:				
Highways and streets:				
Council/administration	30,550	30,550	5,161	25,389
General administration	-	-	28,285	(28,285)
Construction	11,700	11,700	38,125	(26,425)
Routine maintenance	61,000	61,000	74,785	(13,785)
Snow and ice	<u>63,250</u>	<u>63,250</u>	<u>59,889</u>	<u>3,361</u>
	<u>166,500</u>	<u>166,500</u>	<u>206,245</u>	<u>(39,745)</u>
Excess of Revenues over (under) Expenditures	(80,800)	(80,800)	(136,440)	(55,640)
Other Financing Sources (Uses):				
Operating transfers in	80,800	80,800	75,000	(5,800)
Operating transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	80,800	80,800	75,000	(5,800)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	(61,440)	(61,440)
Fund balance at beginning of year	<u>40,454</u>	<u>40,454</u>	<u>40,454</u>	<u>-</u>
Fund balance at end of year (deficit)	<u>\$40,454</u>	<u>\$40,454</u>	<u>(\$20,986)</u>	<u>(\$61,440)</u>

## SUPPLEMENTAL REPORT

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# DAVID TRACZYK

## Certified Public Accountant

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### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and Member of the Council  
City of Bessemer  
Bessemer, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bessemer, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City of Bessemer, Michigan's, basic financial statements and have issued my report thereon dated February 13, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the City of Bessemer, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance, which is reported in Note N regarding compliance issues.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Bessemer, Michigan's, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

One reportable condition is described as follows:

05-1 Fixed Assets

Condition and Criteria: The City has not updated its general fixed assets ledgers or enterprise fund asset ledgers for many years.

Effect: Because of the failure to properly maintain the fixed asset accounts, proper control over these assets cannot be achieved.

Recommendation: It is recommended that all fixed asset accounts be updated and maintained as an integral part of the City's accounting system.

Response: We concur with the recommendation and have begun the process.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However of the reportable conditions described above, I do not consider item 05-1 to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

February 13, 2006